



UNIVERSITY OF OTTAWA  
**HEART INSTITUTE**  
**INSTITUT DE CARDIOLOGIE**  
DE L'UNIVERSITÉ D'OTTAWA

**UNIVERSITY OF OTTAWA HEART INSTITUTE**

**FINANCIAL STATEMENTS**

**MARCH 31, 2018**

# UNIVERSITY OF OTTAWA HEART INSTITUTE

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
University of Ottawa Heart Institute

We have audited the accompanying financial statements of the University of Ottawa Heart Institute, which comprise the statement of financial position as at March 31, 2018 and the statements of operations, changes in net assets and cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University of Ottawa Heart Institute as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*Other Matters*

The financial statements of the University of Ottawa Heart Institute for the year ended March 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on June 22, 2017.

A handwritten signature in dark ink, reading "Marcil Lavallée". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario  
June 14, 2018

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## STATEMENT OF FINANCIAL POSITION

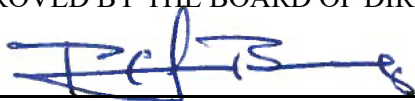
MARCH 31, 2018

(in thousands of dollars)

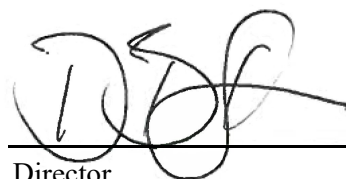
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	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 3,813	\$ 1,383
Accounts receivable		
Ministry of Health and Long-Term Care	2,636	3,508
Patient services	9,081	6,900
Sundry	5,835	3,285
Inventories	3,101	2,175
Prepaid expenses	570	193
	<b>25,036</b>	<b>17,444</b>
<b>CAPITAL GRANTS RECEIVABLE (Note 3)</b>		
Ministry of Health and Long-Term Care	28,047	-
Ottawa Heart Institute Foundation	2,980	-
<b>CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE (Note 3)</b>	<b>189,214</b>	<b>62,202</b>
<b>INTANGIBLE ASSETS (Note 4)</b>	<b>2,442</b>	<b>-</b>
	<b>222,683</b>	<b>62,202</b>
	<b>\$ 247,719</b>	<b>\$ 79,646</b>

APPROVED BY THE BOARD OF DIRECTORS



Director



Director

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## STATEMENT OF FINANCIAL POSITION

MARCH 31, 2018

(in thousands of dollars)

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	2018	2017
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Bank loan (Note 5)	\$ 1,200	\$ -
Accounts payable and accrued liabilities	19,885	13,384
Accounts payable - Ministry of Health and Long-Term Care	2,699	2,575
Accounts payable to The Ottawa Hospital (Note 13)	5,487	4,653
Current portion of long-term debt (Note 8)	965	943
Current portion of obligation under capital lease (Note 9)	528	-
	<b>30,764</b>	<b>21,555</b>
<b>LONG-TERM DEBT</b> (Note 8)	<b>6,267</b>	<b>7,232</b>
<b>OBLIGATION UNDER CAPITAL LEASE</b> (Note 9)	<b>6,737</b>	<b>-</b>
<b>ACCRUED LIABILITY RELATED TO CONSTRUCTION</b> (Note 3)	<b>31,027</b>	<b>-</b>
<b>EMPLOYEE FUTURE BENEFITS</b> (Note 6)	<b>5,250</b>	<b>5,022</b>
<b>DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS</b> (Note 7)	<b>165,166</b>	<b>43,377</b>
	<b>214,447</b>	<b>55,631</b>
	<b>245,211</b>	<b>77,186</b>
<b>NET ASSETS</b>		
Unrestricted (deficiency)	(8,285)	(8,190)
Invested in capital assets and assets under capital lease (Note 10)	10,793	10,650
	<b>2,508</b>	<b>2,460</b>
	<b>\$ 247,719</b>	<b>\$ 79,646</b>

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED MARCH 31, 2018

(in thousands of dollars)

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	Unrestricted (Deficiency)	Invested in Capital Assets and Assets Under Capital Lease (Note 10)	2018 Total
<b>BALANCE, BEGINNING OF YEAR</b>	<b>\$ (8,190)</b>	<b>\$ 10,650</b>	<b>\$ 2,460</b>
Excess (deficiency) of revenue over expenses	48	-	48
Net change in investment in capital assets and assets under capital lease (Note 10)	(143)	143	-
<b>BALANCE, END OF YEAR</b>	<b>\$ (8,285)</b>	<b>\$ 10,793</b>	<b>\$ 2,508</b>

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2018

(in thousands of dollars)

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	Budget	2018	2017
<b>REVENUE</b>			
Ministry of Health and Long-Term Care			
Global allocation and Priority Program Services	\$ 88,053	\$ 83,386	\$ 80,991
Quality-based procedures (QBP)	3,549	3,549	3,370
Health Based Allocation Model (HBAM)	47,179	47,179	43,838
One-time operational funding	3,500	1,826	3,500
One-time cardiac & other	1,390	1,501	4,193
Priority Program Services clawback	(3,086)	(2,162)	(2,522)
Post Construction Operating Plan (PCOP) transition funding	-	802	-
Other recoveries (clawbacks)	-	818	(141)
Cardiac Hospital On Call Coverage (HOCC) & other votes	948	948	948
	141,533	137,847	134,177
Patient services			
In-patient	14,210	18,196	16,150
Out-patient	12,769	13,453	12,619
Preferred accommodation	1,417	1,281	1,385
Other operating revenues and recoveries	6,975	7,596	9,287
Amortization of deferred contributions related to capital assets	2,440	2,734	2,504
	179,344	181,107	176,122
<b>EXPENSES</b>			
Salaries and benefits and purchased services	88,901	86,403	82,403
Medical staff remuneration	6,517	6,204	6,304
Medical surgical supplies	40,054	40,540	41,168
Drugs and medical gases	4,270	4,123	3,880
Supplies and other expenses	11,487	15,248	14,499
Service agreements (Note 13)	21,451	21,413	21,389
Interest charges	375	427	428
Amortization of capital assets and assets under capital lease	5,261	4,882	5,051
Amortization of intangible assets	-	255	-
Bad debts	200	839	254
Equipment rental	804	725	700
	179,320	181,059	176,076
<b>EXCESS OF REVENUE OVER EXPENSES</b>	\$ 24	\$ 48	\$ 46



# UNIVERSITY OF OTTAWA HEART INSTITUTE

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2018

(in thousands of dollars)

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	2018	2017
<b>CASH FLOWS FROM (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses	\$ 48	\$ 46
Items not affecting cash :		
Amortization of deferred contributions related to capital assets	(2,734)	(2,504)
Amortization of capital assets and assets under capital lease	4,882	5,051
Amortization of intangible assets	255	-
Loss on disposal of capital assets	-	118
Net increase in employee future benefits	228	289
Net change in non-cash working capital items (Note 11)	2,297	3,231
	4,976	6,231
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(124,705)	(11,510)
Acquisition of intangible assets	(2,621)	-
	(127,326)	(11,510)
<b>FINANCING ACTIVITIES</b>		
Deferred contributions for capital assets received	124,523	6,832
Proceeds from bank loan	9,800	-
Repayment of bank loan	(8,600)	-
Repayment of long-term debt	(943)	(923)
	124,780	5,909
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	2,430	630
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	1,383	753
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 3,813	\$ 1,383

Cash and cash equivalents are comprised of cash.

Non-cash transactions include the acquisition of an asset under capital lease for \$7,265 and the assumption of an obligation under capital lease for the same amount.

Non-cash transactions include also the recognition of the capital grants receivable in the amount of \$31,027 and the assumption of the accrued liability related to construction for the same amount.

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(in thousands of dollars)

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### 1. PURPOSE OF THE ORGANIZATION

The University of Ottawa Heart Institute (“the Institute”) is incorporated without share capital under the *Ontario Corporations Act*. It provides a full range of cardiac services including primary and secondary prevention, diagnosis and treatment, rehabilitation, research and education. It is the sole provider of interventional cardiology and cardiac surgery for Eastern Ontario and Western Quebec. The Institute focuses its clinical activity in three major areas: open heart surgery, interventional cardiology and arrhythmia procedures. As a registered charity, the Institute is exempt from income taxes under subsection 149(1)(f) of the *Income Tax Act*.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian public sector accounting standards that apply only to government not-for-profit organizations (PSAS-GNFPO) and include the following significant accounting policies:

#### Use of estimates

The preparation of financial statements in compliance with the PSAS-GNFPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the period covered. Actual amounts could differ from these estimates. The main estimates relate to the impairment of financial assets such as the allowance for doubtful accounts, the useful life of capital assets, the valuation of accrued liabilities and of the employee future benefits liability. These estimates are reviewed annually and as adjustments become necessary, they are recorded in the financial statements in the period they become known.

#### Financial instruments

##### *Measurement of financial instruments*

The Institute initially measures its financial assets and financial liabilities at fair value, except for certain non-arm’s length transactions.

The Institute subsequently measures all of its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash, accounts receivable and capital grants receivable.

Financial liabilities measured at amortized cost include the bank loan, accounts payable and accrued liabilities, accounts payable – Ministry of Health and Long-Term Care, due to The Ottawa Hospital (“TOH”), accrued liability related to construction, long-term debt and obligation under capital lease.

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(in thousands of dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### *Impairment*

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. The Institute determines whether a significant adverse change has occurred in the expected timing or amount of future cash flows from the financial asset. If this is the case, the carrying amount of the asset is reduced directly to the higher of the present value of the cash flows expected to be generated by holding the asset, and the amount that could be realized by selling the asset at the balance sheet date. The amount of the write-down is recognized in operations. The previously recognized impairment loss may be reversed to the extent of the improvement, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in operations.

#### *Transaction costs*

Transaction costs related to financial instruments subsequently measured at amortized cost adjust the carrying amount of the financial asset or liability and are accounted for in the statement of operations using the straight-line method.

### Contribution and capital grants receivable

A contribution receivable is recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Capital grants receivable are related to grants obtained for capital assets acquisitions or projects, which have been approved by the funder and are receivable by the Institute at year-end. Capital grants receivable are also being added to the deferred contributions related to capital assets and amortized in future years at the same rate as the rate of amortization of the related assets.

### Revenue recognition

Under the *Health Insurance Act* and regulations thereto, the Institute is funded primarily by the Province of Ontario in accordance with the budget arrangements established by the Ministry of Health and Long-Term Care. Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured. Where a portion of a grant received relates to a future period, it is deferred and recognized in that subsequent period. These financial statements reflect funding arrangements approved by the Ministry with respect to the year ended March 31, 2018.

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(in thousands of dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue recognition (continued)

Some of the Institute's operational financing is part of certain programs managed by the Local Health Integrated Network (LHIN) and other funding agencies. The final operating revenue recorded under these programs can only be confirmed once the financial reports and statistics of the Institute have been reviewed by the funding agencies. Any adjustments required to these revenues following the funding agencies' review are recorded in the year they are determined.

The Institute follows the deferral method of accounting for contributions which include government grants and donations. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Where a portion of a restricted contribution relates to a future period, it is deferred and recognized in the subsequent period. Contributions restricted for the purchase of capital assets are deferred and amortized as revenue in the statement of operations at a rate corresponding with the amortization rate for the related capital assets.

Revenues from patient services, preferred accommodation and other operating revenues and recoveries are recognized when the services are provided and when collection is reasonably assured.

#### Contributed services

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

#### Inventories

Inventories are valued at lower of cost and replacement cost, with cost being determined using the average cost basis.

#### Capital assets and assets under capital lease

Purchased capital assets and assets under capital lease are recorded at cost. Construction in progress is not amortized until the project is complete and the facilities come into use. Equipment is not amortized until it is ready to be used. Capital assets are amortized on a straight-line basis over the following periods:

Buildings and building improvements	20 years
Diagnostic and operating equipment	5 to 10 years
Network Infrastructure	10 to 20 years

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(in thousands of dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Intangible assets

Purchased intangible assets are recorded at cost and are amortized on a straight-line basis as follows:

Software	5 years
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#### Software under development

In the current year, the Institute, in collaboration with TOH and other regional partners, embarked on the implementation of a comprehensive integrated hospital information system designed to enhance the processing of hospital clinical services. The Institute's share of all development costs related to this system is accounted for at cost. All development costs recorded meet the criteria for capitalization. Once the development phases are over, the costs will be amortized over the estimated useful life of the software.

#### Write-down of capital assets

When a capital asset no longer contributes to the Institute's ability to provide services, its carrying amount is written down to residual value, if any. The excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.

#### Employee future benefits

##### *Pension plan*

Substantially all Institute employees are eligible to be members of the Hospitals of Ontario Pension Plan, which is a multi-employer defined benefit plan. The Institute considers the Plan as a defined contributions plan for accounting purposes since there is not sufficient information available to apply defined benefit pension plan accounting standards. Accordingly, the Institute's contributions to the Plan are recognized as expenses based on accounting standards for defined contributions plans.

##### *Extended health, dental and life benefits*

The Institute provides defined retirement and other future benefits for substantially all retirees and employees. These future benefits include life insurance and health care benefits.

The Institute accrues its obligations for employee benefit plans as the employees render the services necessary to earn the benefits. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs.

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(in thousands of dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Employee future benefits (continued)

##### *Extended health, dental and life benefits*

Adjustments arising from plan amendments, including past service costs, are recognized in the year that the plan amendments occur. Actuarial gains or losses are amortized over the expected average remaining service life of active employees.

##### *Compensated absences*

Compensation expense is accrued for all employees as entitlement to these payments is earned, in accordance with the Institute's benefit plans for vacation and sick leave.

#### Cash and cash equivalents

The Institute's policy is to present bank balances under cash and cash equivalents, including bank overdrafts with balances that can fluctuate from being positive to overdrawn.

### 3. CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE

	Cost	Accumulated Amortization	2018
<b>Capital assets</b>			
Buildings and buildings improvements	\$ 59,157	\$ 33,712	\$ 25,445
Diagnostic and Operating equipment	44,129	38,676	5,453
Construction in progress	150,371	-	150,371
Network Infrastructure	756	76	680
	<b>254,413</b>	<b>72,464</b>	<b>181,949</b>
<b>Assets under capital lease</b>			
Equipment	7,265	-	7,265
	<b>\$ 261,678</b>	<b>\$ 72,464</b>	<b>\$ 189,214</b>

	Cost	Accumulated Amortization	2017
<b>Capital assets</b>			
Buildings and buildings improvements	\$ 59,033	\$ 30,754	\$ 28,279
Diagnostic and Operating equipment	43,767	36,752	7,015
Construction in progress	26,908	-	26,908
	<b>\$ 129,708</b>	<b>\$ 67,506</b>	<b>\$ 62,202</b>

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(in thousands of dollars)

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### 3. CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE (continued)

Construction in progress represents the construction, planning and design costs incurred to date for a multi-year construction and renovation project at the Institute.

In November 2014, the Institute entered into a project agreement with a third-party construction company to build and finance the project. The total estimated cost of the construction and interest component of this project under this agreement is \$135,000, which is primarily funded by the Ministry of Health and Long-Term Care and by the University of Ottawa Heart Institute Foundation. On January 18, 2018, the project achieved *Interim Completion* (as defined in the project's agreement) and a payment of \$75,000 plus HST was paid to the construction company. The Ministry of Health and Long-Term Care provided the Institute with their portion of the interim completion payment in the amount of \$69,000. This amount has been recorded as a deferred contribution related to capital assets.

The Institute commenced operations in the newly constructed facility on April 2, 2018. The related assets will be transferred from construction in progress to the appropriate capital assets categories in the next fiscal year and will then be amortized.

As at March 31, 2018, the construction company has incurred \$31,027 in additional project related construction costs since Interim Completion. As per the project agreement, these costs are not due to be paid until the project achieves *Substantial Completion*, which is not expected before October 2019, as defined in the project agreement. This amount has been added to the costs of construction in progress and a corresponding long-term liability has been recognized and presented as an "Accrued liability related to construction" on the statement of financial position. An equivalent amount has been recorded as capital grants receivable and deferred contributions related to capital assets.

### 4. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	2018	2017
Software	\$ 894	\$ 179	\$ 715	\$ -
Health Information System software in development	1,727	-	1,727	-
	\$ 2,621	\$ 179	\$ 2,442	\$ -

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(in thousands of dollars)

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### 5. BANK LOAN

The Institute has an authorized operating line of credit of \$15,000 at prime lending rate minus 0.75%. As at March 31, 2018, \$1,200 was used from this facility. This line of credit is secured by a general security agreement. The line of credit is repayable on demand or by October 2019. On that date, the loan is expected to be repaid with a pre-approved term loan of \$15,000, with an interest rate fixed through a SWAP contract at 3.07% and maturing on October 31, 2029.

The Institute has also an overdraft lending agreement with the Toronto Dominion Bank for an amount of \$500 for the purpose of financing a Letter of Credit for the City of Ottawa in connection with the construction in progress. This operating loan is repayable on demand, bears interest at prime rate minus 0.75% and is secured by a general security agreement. This operating loan was not used by the Institute as of March 31, 2018.

### 6. EMPLOYEE FUTURE BENEFITS AND PENSION PLAN

#### *Extended health, dental and life benefits*

The Institute offers a defined benefit plan which provides extended health care and dental insurance benefits to certain of its employees. This coverage is extended to the post-retirement period. The most recent complete actuarial valuation of employee future benefits was completed as at March 31, 2016. The next scheduled valuation will be as at March 31, 2019.

As TOH manages all human resources functions for the Institute, the Institute's employees are offered the same future benefits as are offered to the employees of TOH and are included in the overall calculation of estimated future benefits. The Institute's share of the employee future benefits is calculated using the Institute's management best estimate.

As at March 31, 2018, the Institute's estimated extrapolated liability associated with the employee future benefits plan is as follows:

	2018	2017
Accrued benefit obligation	\$ 5,589	\$ 5,556
Unamortized experience losses	(339)	(534)
Employee future benefits liability	\$ 5,250	\$ 5,022

The Institute's defined benefit plan for employee future benefits is not funded, resulting in a plan deficit equal to the accrued benefit obligation.



# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(in thousands of dollars)

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### 6. EMPLOYEE FUTURE BENEFITS AND PENSION PLAN (continued)

The significant actuarial assumptions used in measuring the Institute's accrued benefit obligation are as follows:

	2018	2017
Discount rate – accrued benefit obligation	3.37%	3.56%
Dental cost increases	3.50%	3.50%
Extended health care cost increases *	7.50%	7.50%
Expected average remaining service life of employees	15.1 years	16 years

\* Decreasing by 0.5% per annum to an ultimate rate of 4.50%.

The employee future benefits liability increased by \$228 for the year ended March 31, 2018 (2017: increased by \$289). This amount is included in the salaries and benefits expense in the statement of operations and is comprised of the following:

	2018	2017
Balance, beginning of year	\$ 5,022	\$ 4,733
Current service cost	317	362
Interest cost	198	194
Benefits paid	(321)	(291)
Amortization of experience losses	34	24
	228	289
Balance, end of year	\$ 5,250	\$ 5,022

#### *Hospital of Ontario Pension Plan*

Substantially all of the employees of the Institute are members of the Hospital of Ontario Pension Plan (the “Plan”), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Contributions to the Plan made during the year by the Institute for the benefit of its employees amounted to \$5,499 (2017: \$5,328) and are included in the salaries and benefits expense in the statement of operations.

Variances between actuarial funding estimates and actual experience may be material and differences are generally funded by the participating members. The most recent actuarial valuation of the Plan as at December 31, 2017 indicates that the Plan is fully funded.

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(in thousands of dollars)

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### 7. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions related to capital assets represent unamortized amount of donations and grants restricted for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations at a rate corresponding to the amortization rate of the related capital assets.

	2018	2017
Buildings and buildings improvements	\$ 150,067	\$ 32,280
Equipment	15,099	7,097
	<b>\$ 165,166</b>	<b>\$ 43,377</b>

Changes in the deferred contributions for capital assets during the year are as follows:

	2018	2017
Balance, beginning of year	\$ 43,377	\$ 39,049
Plus: Contributions received or recognized during the year	124,523	6,832
Less: Amortization of capital contributions to revenue	(2,734)	(2,504)
Balance, end of year	<b>\$ 165,166</b>	<b>\$ 43,377</b>

### 8. LONG-TERM DEBT

	2018	2017
Term loan secured by a general security agreement – 2.23%, maturing on March 27, 2025, payable in monthly instalments of \$93, principal and interest	\$ 7,232	\$ 8,175
Current portion of long-term debt	(965)	(943)
	<b>\$ 6,267</b>	<b>\$ 7,232</b>

Long-term debt estimated principal repayments over the next years are as follows:

2019	\$ 965
2020	986
2021	1,008
2022	1,031
2023	1,054
Other	2,188
	<b>\$ 7,232</b>

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(in thousands of dollars)

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### 9. OBLIGATION UNDER CAPITAL LEASE

	2018	2017
Imaging equipment lease contract with a book value of \$7,265 – 5.46%, maturing in April 2028 after a renewable period of five years, payable in monthly instalments of \$80 from May 2018 to April 2023 and of \$77 from May 2023 to April 2028, with a purchase option at maturity of one dollar	\$ 7,265	\$ -
Current portion of obligation under capital lease	528	-
	<b>\$ 6,737</b>	<b>\$ -</b>
Future minimum lease payments of the obligation under capital lease for the next years are as follows:		
2019	\$ 880	
2020	960	
2021	960	
2022	960	
2023	960	
Other	4,700	
	9,420	
Interest included in instalments	2,155	
	<b>\$ 7,265</b>	

### 10. INVESTMENT IN CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE

a. Investment in capital assets and assets under capital lease is calculated as follows:

	2018	2017
Capital grants receivable	\$ 31,027	\$ -
Capital assets and assets under capital lease	189,214	62,202
Intangible assets	2,442	-
	<b>222,683</b>	<b>62,202</b>
Financed by:		
Bank loan	1,200	-
Deferred contributions related to capital assets	165,166	43,377
Long-term debt	7,232	8,175
Obligation under capital lease	7,265	-
Accrued liability related to construction	31,027	-
Net investment in capital assets and assets under capital lease, end of year	<b>\$ 10,793</b>	<b>\$ 10,650</b>

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

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### 10. INVESTMENT IN CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASE (continued)

b. Net change in investment in capital assets and assets under capital lease is calculated as follows:

	2018	2017
Recognition of capital grants receivable	\$ 31,027	\$ -
Acquisition of capital assets and assets under capital lease	131,970	11,510
Acquisition of intangible assets	2,621	-
Amount funded by deferred contributions related to capital assets received or receivable	(124,523)	(6,832)
Amounts funded by capital lease	(7,265)	-
Amounts funded by long-term debt:		
Proceeds	(9,800)	-
Repayment	9,543	923
Amounts funded by accrued liability related to construction	(31,027)	-
Loss on disposal of capital assets	-	(118)
Amortization of deferred contributions related to capital assets	2,734	2,504
Amortization of capital assets and assets under capital lease	(4,882)	(5,051)
Amortization of intangible assets	(255)	-
	\$ 143	\$ 2,936

### 11. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2018	2017
Accounts receivable	\$ (3,859)	\$ (78)
Inventories	(926)	(425)
Prepaid expenses	(377)	-
Accounts payable and accrued liabilities	6,501	4,611
Accounts payable – Ministry of Health and Long-Term Care	124	2,513
Accounts payable to TOH	834	(3,390)
<b>Net change in non-cash working capital</b>	<b>\$ 2,297</b>	<b>\$ 3,231</b>

# UNIVERSITY OF OTTAWA HEART INSTITUTE

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### 12. RISK MANAGEMENT

The Institute is exposed to a variety of financial risks including credit, interest rate and liquidity risks. The Institute's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Institute's financial performance.

#### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Institute's main credit risks relate to its accounts receivable. The Institute provides credit to its patients in the normal course of its operations.

The Institute is exposed to credit risk in the event of non-payment by patients for non-insured services and services provided to non-resident patients. This risk is common to hospitals as they are required to provide care for patients regardless of their ability to pay for services.

The Institute establishes allowances for doubtful accounts while keeping in mind the specific credit risk of patients and their historic tendencies and economic situation. Approximately 52% of the total accounts receivable is to be received from insurers and patients, 15% from the Ministry of Health and Long-Term Care, and 33% from other organizations. The Institute considers that no significant risk arises from that situation.

At March 31, 2018, the following patients accounts receivable were outstanding:

	30 days	60 days	90 days	Over 90 days	Total
Patients accounts					
Receivable balances	\$ 3,560	\$ 2,831	\$ 748	\$ 2,482	\$ 9,621
Less: allowances	(82)	(41)	(21)	(396)	(540)
Net	\$ 3,478	\$ 2,790	\$ 727	\$ 2,086	\$ 9,081

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Institute is exposed to interest risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Institute to a fair value risk while the floating-rate instruments subject it to a cash flow risk.

For the Institute's long-term debt bearing a fixed interest rate, the risk exposure is minimal.

For the Institute's bank loan and balance due to TOH bearing a variable interest rate, the Institute's interest risk exposure is function of the changes of the underlying variable. However, a variation of 1% of the variable would not have a significant effect on the net earnings and financial position of the Institute.

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

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### 12. RISK MANAGEMENT (continued)

#### Liquidity risk

Liquidity risk is the risk the Institute will not be able to meet its financial obligations when they come due. The Institute manages its liquidity risk by forecasting cash flows from operations and anticipating investing and financing activities and maintaining credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements.

As at March 31, 2018, the Institute had the following financial liabilities with the following due dates:

	Up to 6 months	More than 6 months and up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
Bank loan	\$ -	\$ -	\$ 1,200	\$ -	\$ 1,200
Accounts payable and accrued liabilities	11,339	1,127	6,906	513	19,885
Accounts payable – MOHLTC	2,699	-	-	-	2,699
Due to TOH	5,487	-	-	-	5,487
Long-term debt	479	486	4,079	2,188	7,232
Obligation under capital lease	400	480	3,840	4,700	9,420
Accrued liability related to construction	-	-	31,027	-	31,027
	\$ 20,404	\$ 2,093	\$ 47,052	\$ 7,401	\$ 44,723

### 13. ECONOMIC INTERESTS

The following transactions are considered to be in the normal course of operations and are measured at the exchange amount.

#### The Ottawa Hospital

The Institute has an economic interest in TOH due to the relationship between the Institute and TOH. The Institute has entered into service agreements with TOH where several services such as laboratory services, facilities and administrative support are provided by TOH. Therefore, the services rendered by TOH are currently essential to the Institute's operational activities. The service agreement is in effect until March 31, 2021 and each service level agreement is negotiated annually at fair market value per service rendered and based on the volume of activities. During the year, the Institute made total payments to TOH under the service agreements in the amount of \$21,413 (2017: \$21,389).

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## NOTES TO THE FINANCIAL STATEMENTS

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### 13. ECONOMIC INTERESTS (continued)

#### The Ottawa Hospital (continued)

Furthermore, the land used by the Institute for its premises is owned by TOH. The land is leased to the Institute under a long-term agreement expiring March 31, 2035 for an annual nominal payment of \$1.

As at March 31, 2018, the Institute has an unsecured account payable to TOH of \$5,487 (2017: \$4,653) bearing interest at prime rate.

#### University of Ottawa Heart Institute Foundation

The Institute has an economic interest in the Ottawa Heart Institute Foundation (the “Foundation”) since the Foundation raises funds and holds resources that are used to benefit the Institute. The Foundation coordinates and promotes fundraising and endowment activities to support and fund capital projects of the Institute and various other programs and activities such as research, patient care, education and other activities concerning cardiovascular health at the Institute and the Ottawa Heart Institute Research Corporation (“the Corporation”). The Foundation is incorporated without share capital under the *Canada Not-for-Profit Corporations Act*. The Foundation is a registered charity and, as such, is exempt from income taxes under subsection 149(1)(l) of the *Income Tax Act*.

Included in accounts receivable is \$5,034 (2017: \$25) owing from the Foundation mainly for capital funding. Included in accrued liabilities is \$48 (2017: \$52) owing to the Foundation.

During the period, the Institute received funding of \$23,365 (2017: \$8,040) from the Foundation to support clinical programs (2018: \$856; 2017: \$1,160), and equipment purchases and capital programs (2018: \$22,509; 2017: \$6,880).

#### Ottawa Heart Institute Research Corporation

The Institute has an economic interest in the Ottawa Heart Institute Research Corporation (“the Corporation”). The purpose of the Corporation is to conduct, acquire, solicit or receive research contributions to operate and maintain laboratories and a research facility for the benefit of the Institute. The Corporation is a registered charity and, as such, is exempt from income taxes under subsection 149(1)(l) of the *Income Tax Act*. In addition, the Corporation is classified as a non-profit corporation for scientific research and experimental development as defined in subsection 149(1)(l) of the *Income Tax Act*. The Corporation is incorporated without share capital under the *Canada Not-for-Profit Corporations Act*.

As at March 31, 2018, the Institute has accounts receivable amounting to \$169 (2017: \$297) relating to construction projects and other costs incurred on behalf of the Corporation and has accrued liabilities amounting to \$4,209 (2017: \$1,336) which consists of funding received on behalf of the Corporation and payroll and other support costs incurred by the Corporation on behalf of the Institute. These amounts are non-interest bearing and have no specified terms of repayment.

# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

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### 13. ECONOMIC INTERESTS (continued)

#### Ottawa Heart Institute Research Corporation (continued)

During the year, the Institute provided \$4,604 (2017: \$3,413) of base funding in support of research to the Corporation. These amounts are included under supplies and other expenses in the statement of operations.

The Corporation provides payroll management services to the Institute for a limited group of employees at no cost. All salaries and benefits' costs are reimbursed on a monthly basis by the Institute. During the year, a total of \$5,940 (2017: \$5,985) in salaries and benefits were reimbursed to the Corporation by the Institute.

#### Alumni and Auxiliary

The Institute has an economic interest in the Ottawa Heart Institute Alumni Association ("the Alumni") and the Heart Institute Auxiliary ("the Auxiliary"). The object of the Auxiliary and the Alumni is to raise and receive funds to be distributed towards various programs and capital projects of the Institute, the Corporation and the Foundation. The Auxiliary and Alumni are tax-exempt entities created under the laws of Ontario.

### 14. CONTRACTUAL OBLIGATIONS

The Institute is committed under long-term leases and supplier contracts for various services and equipment to make payments over the next four years estimated as follow:

2019	\$	658
2020		625
2021		256
2022		150

As explained in Note 3, the Institute entered into a project agreement with a third-party construction company for the construction of a new building and the renovation of existing facilities. The total estimated cost for the construction and financing components of the project under this agreement is \$135,000, of which, \$75,000 has been paid during the year. The net remaining commitment of the Institute as of March 31, 2018 amounts to \$60,000 of which \$31,027 was accrued as of March 31, 2018. The costs of this project are being funded by the Ministry of Health and Long-Term Care and by the University of Ottawa Heart Institute Foundation.

As described in Note 13, the Institute has entered into a long-term service agreement with TOH for several services provided by TOH. The agreement is in effect until March 31, 2021. Each service level agreement is negotiated annually at fair market value per service rendered and based on the volume of activities.



# UNIVERSITY OF OTTAWA HEART INSTITUTE

## NOTES TO THE FINANCIAL STATEMENTS

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### 15. CONTINGENCIES

- a) The Institute is involved in employee related grievances and litigation matters, the outcome of which is not determinable at this time. Any liability or payments resulting from these matters will be recognized in the year when the outcome is reasonably determinable and the amounts involved can be estimated.
- b) A group of hospitals, including the Institute, have formed the Healthcare Insurance Reciprocal of Canada (HIROC). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts, which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces and territories where it is licensed. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the year in which they were a subscriber. No such assessments have been made to March 31, 2018.
- c) The Institute is contingently liable under a letter of credit in the amount of \$386 (2017: \$386) as required by the Institute's site plan agreement with the City of Ottawa related to the completion of the construction and renovation project described in Note 4. This letter of credit expires on December 31, 2019.
- d) The Institute has received eight charitable donations in the form of gift plus annuities, whereby individuals have deposited funds into insurance policies payable to the Institute in exchange for guaranteed annuities for five years and subsequent fixed lifetime annuities to the donors' designated beneficiaries. At the time when the money is deposited, the Institute receives a pre-determined percentage of the total contribution as a cash donation. In the event that the insurance company defaults on these payments, the Institute must honor the original obligation and continue to fund the annuities. The value of these obligations has been actuarially determined at \$55 as at March 31, 2005. There have been no additions to these agreements in the current year.
- e) The Institute has guaranteed, in the form of a second ranking security in all of its personal property, a credit facility the University of Ottawa Heart Institute Foundation has entered into with the Royal Bank of Canada to provide up to \$20,000 in borrowing subject to the Foundation's cash flow requirements. This financing is composed of a fixed rate facility (\$10,000) and a floating rate facility (\$10,000).

The fixed rate facility balance at March 31, 2018 was \$10,000, maturing January 31, 2028, bearing an interest rate of 2.44%, which is fixed through a forward SWAP contract. The floating rate facility is available on demand, maturing on March 31, 2020, and bears interest at bank prime minus 75 basis points. No amount had been borrowed as at March 31, 2018.

### 16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to be consistent with the current year's presentation.